Southwest Financial
Federal Credit Union

March 9, 2010

Ms. Mary Rupp
Secretary of the board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

RE: Comments to Proposed Regulation 12 CFR Part 704

Dear Ms. Rupp,

As the President/CEO of Southwest Financial Federal Credit Union, I would like to share with you the impact that our corporate credit union has on our daily operations and my concerns with some sections of the proposed regulation.

As a small credit union of $44,359,921.53 in assets and 9,640 members, we rely heavily on the services provided by our corporate credit union, Southwest Corporate. In addition to providing us with short-term investments and our checking account, they also process our ACH, share drafts and wire transfers on a daily basis.

One of the concerns I have regarding the proposed ruling is the cash flow mismatch sensitivity analysis (704.8e). My concern is that I don't feel corporate credit unions can effectively create an investment portfolio that would comply with the proposed rule's investment and ALM limitations. Nor do I believe corporate credit unions can generate enough net income to meet the new retained earnings requirements over a 10-years phase-in period. Should the corporate credit unions raise their fees to achieve these earning requirements, their recapitalization efforts would be useless. Small credit unions such as ours cannot afford to trust and re-invest in a continued failing corporate structure and are already being forced to re-evaluate our relationship with corporate credit unions.

It is my recommendation that NCUA amend paragraph 704.8(e)(1)(i) of the proposed rule in order to require a corporate credit union to evaluate the risk in it's balance sheet by measuring the impact of an instantaneous spread widening of both assets and liabilities by 100 basis points (rather than by 300 basis points). Additionally, I ask the NCUA to require a more limited shock test for government sponsored entity debt.

In addition, I ask NCUA amend paragraph 704.8(e)(1)(iii) of the proposed rule to limit a corporate credit union's risk exposure to levels that do not result in a decline in NEV of more than 35 percent (rather than 15 percent).

Secondly, I am truly concerned about the one-year transition period to meet new risk-based capital ratios (704.3 Corporate Credit Union Capital). It is imperative that newly contributed capital not be exposed to potential losses from existing (and not yet realized) legacy assets. As this proposed rule provides one-year for corporate credit unions to recapitalize, I am extremely concerned about the timing of this as there still isn't a solution to isolate the legacy assets. In addition, once a solution is determined, what is the timeframe of implementation? Unfortunately, it would be irresponsible of me to re-invest in a corporate credit union without knowing that our investment is secure going forward. Therefore, it is my recommendation that NCUA isolate the legacy assets prior to implementation of the time period or amend the timeframe to one-year after the implementation of the legacy asset solution.

Thirdly, I would like to recommend that NCUA re-define the "availability to cover losses that exceed retained earnings" (704.2 Definitions). The proposed application of this term would mean that member-contributed capital must be exhausted in order to cover operating losses realized by a corporate credit union if those losses exceed retained earnings. To the extent that any member-contributed capital was used to cover losses, the corporate credit union would not be allowed to replenish the impacted capital accounts under any circumstances and member credit unions can make no claim for the impacted capital against a liquidated corporate credit union. It would be my recommendation that NCUA not require depletion of member-contributed capital to cover losses and instead allow corporate credit unions to maintain a retained earnings deficit. If depletion remains a requirement, a corporate credit union should be allowed to restore depleted funds if and when projected losses are known to have overstated actual losses. It is unrealistic to believe that natural person credit unions will continue to operate and re-capitalize under these assumptions.

Although I have tremendous concerns about the future of our industry and our corporate credit union structure, I also know the benefit that is provided to natural person credit unions (and our members) through corporate credit unions. By leveraging the cost of products and services, corporate credit unions are able to provide (and pass on) those benefits. It is much more difficult for us to differentiate ourselves in the marketplace if we walk and talk like a bank. Without corporate credit unions, we will be forced to use banks and the Federal Reserve to process our daily transactions. This will in turn force us to raise our fees and walk more like a bank.

Thank you for taking the time to listen to our concerns. We all look forward a working solution to build a better future for all credit unions and our members.

Sincerely,

Melanie Kennedy

Melanie Kennedy
President/CEO
214-580-9911